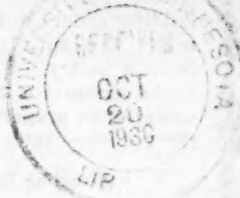


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1930



**Economic Conditions
Governmental Finance
United States Securities**

New York, October, 1930.

General Business Conditions

THE month of September has witnessed some improvement in business, rather pronounced in some lines, but taking the situation as a whole the gains have failed to carry conviction as to the permanency of the uptrend. At this time of year the seasonal increase in the demand for goods would naturally impart a stimulus to trade and industry, hence the real measure of progress must be judged after making allowance for these influences. When this is done it must be admitted that the showing for Fall business so far has not been very encouraging.

Announcement by the American Federation of Labor of a decrease in unemployment among its membership from 22 per cent in August to 21 per cent in September indicated a trend in the right direction, though the gain could not be called particularly impressive in view of the large numbers out of work. Car loadings of merchandise and miscellaneous freight on the railways has shown a seasonal increase since the middle of August, and some satisfaction is derived from the fact that the unfavorable spread as compared with a year ago is no longer increasing. Nevertheless, total loadings for this classification in the four weeks ended September 13 were 15 per cent under last year and the lowest for any like period since 1923. Seasonal expansion of commercial borrowing at banks and money in circulation, usually expected at this time, has been very moderate, and evidences of continuing readjustment in wages and basic commodity prices have served to strengthen the feelings of pessimism. Indications, on the other hand, of a greater willingness on the part of various large consumers to contract ahead for raw materials at the current low prices have been a favorable development.

To business men who, throughout the difficult times of the Spring and Summer, have been looking forward to the Fall months to mark the commencement of business revival, the failure of September to develop a conclusive upward trend has been a keen disappointment. As usual, this feeling has been

reflected in the stock market, which showed a firmer tendency in the latter part of August on hopes of better business, but which lately has been subjected to renewed liquidation of an urgent character, carrying prices of many stocks down to new low levels for the year.

That the prospect of a possible deferment of any substantial improvement in business until next year should have a depressing psychological influence is inevitable, but this is no reason for a loss of perspective on current developments. In times like the present the public is in a highly nervous state and easily misled by fantastic rumors. Just as a year ago the mood was to exaggerate every favorable item of news and ignore unfavorable symptoms, so now the pendulum has swung the other way, and bad news is played up and good news thrust in the background. Repeated instances during the past month of panicky reactions to absurd alarms have given evidence of the extent to which the public has abandoned sound thinking and given itself over to hysterical imaginings.

This comment is not to imply any desire to minimize the seriousness of the obstacles to business revival, but simply to point out that it is possible to magnify the difficulties out of all due proportion. We do not agree with those who contend that the present depression is largely psychological, and that liberal doses of "sunshine" talk are all that is needed to restore us to the road to prosperity. We recognize that the depression is caused by serious and fundamental maladjustments, yet in its essentials it does not differ greatly from the depressions of the past. These phenomena of recurring crises have been the subject of study for many years, and while it is true that no two depressions are precisely alike the general characteristics are fairly well understood. At the levels touched during July and August, composite indexes of business such as those computed by Standard Statistics, Brookmire, and the Federal Reserve Bank of New York were close to the bottom levels of 1921, warranting the assumption that the decline must have nearly, if not entirely, run its course.

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Retail Trade and General Merchandising

Reports from the retail trade, while spotty, have generally indicated a steady movement of goods into consumption, and this continues to be one of the most satisfactory features of the situation. During mid-Summer, sales experienced a sharp decline, but began to pick up towards the latter part of August, and in September, with the return of vacationists and opening of the school season after Labor Day. Later in the month unfavorably warm shopping weather proved a retarding influence. Undoubtedly the promptness with which the stores have passed the benefits of lower prices on to the consumer has been a large factor in stimulating buying, but it appears also that purchasing power has fallen off less than had been generally anticipated.

With a better movement of goods through the retail outlets, the stimulus has been carried back into the primary markets, and manufacturers, dealers, and jobbers in a wide variety of lines handling articles of every day usage and of the type commonly sold over the counters of retail stores, such as shoes, apparel, textiles, notions, etc., have felt an improvement in business. In cotton goods, the gain in activity has been particularly marked, reflecting better retail demand and the long curtailment of production which has been gradually bringing about a more favorable balance between consumption and production. During August mill consumption of cotton totaled 352,335 bales, against 558,113 bales in August last year, a decrease of 37 per cent. Measured in terms of operations this represented 65.2 per cent of single shift capacity, against 97.3 per cent in August last year, and the lowest since August, 1924.

One of the significant features of the situation has been the accumulating evidence of a reduction in stocks of merchandise. While the testimony is by no means unanimous on this score, such information as comes to us through contacts in many different lines of trade generally supports this conclusion. Representatives of the bank travelling through the country report manufacturers to be receiving an unusually large proportion of telegraphic orders for express shipment. In New York City, several of the large department stores have reported a change in the situation in the past month or so, in that excess stocks in the hands of manufacturers and wholesalers have been much reduced, while at the same time indications of potential shortages have begun to appear in various lines. In the absence of statistical proof it would be a mistake to over-emphasize these reports, nevertheless the fact that these suggestions are appearing at precisely the time they should, according to the experience of

past cycles, points to the probability that business is once more following the traditional course, that is, of going to extremes in withholding orders until forced to replenish stocks under the spur of continuing consumption. Such a policy, of course, tends to deepen the trade slump for the time being, but by the same token prepares the ground more fully for the recovery later on.

Situation in the Heavy Industries

However, until gains are participated in by the heavier industries, including steel, building and automobiles, business can hardly look for sustained revival, and just at present the outlook in these lines is much clouded.

Seasonal expansion of steel mill operations has been backward thus far, the percentage activity rate for the industry at the end of September being 61 per cent, compared with an average of 55 per cent for the month of July, and 82 per cent a year ago. While recent firmness in prices of steel scrap and greater resistance to pressure in finished steel prices have been favorable developments, a decline of 441,851 tons in the unfilled orders of the Steel Corporation at the end of August and the blowing out of 5 blast furnaces during September have had reverse implications. Nevertheless, despite conflicting currents in the situation, sentiment in the trade is by no means pessimistic. With consumers' stocks at extremely low levels, forward buying for replenishment purposes has been reported on a moderately increased scale, and this, together with the way operations have held up without support from the chief consuming industries, are taken as encouraging symptoms.

Reasons for the failure of steel operations to advance may be readily seen by glancing over the list of principal steel outlets. Production of automobiles during August amounting to 223,046 units was off 55 per cent from August last year and the smallest for the month since 1921, while reports from automobile centers do not give promise of a much better showing for September. For the entire year, total production of cars and trucks for the United States and Canada is not now expected to exceed 3,750,000 units, as against previous estimates of 4,000,000 to 4,250,000. Generally speaking, the industry has already crossed 1930 off the books, and is directing its efforts to clearing the decks for 1931. Thanks to the curtailment in production already practiced, stocks of new cars in dealers' hands are estimated to be more than 20 per cent under last year, and stocks of used cars are also considerably smaller, so that the industry will go into 1931 in a favorable position to profit from any increase in demand.

In the building industry, the value of new contracts awarded during August totaled

\$347,318,300, according to the F. W. Dodge Corporation, a decrease of 29 per cent from August a year ago. The following table gives the comparative figures by major classifications for the first three weeks of September:

Daily Average of Contracts in 37 States:

	Sept. 2 through Sept. 19, 1930 (16 Bus. days)	Month of August 1930 (Basis of 25 days)	Month of September 1929 (Basis of 25 days)
Residential	\$4,114,100	\$3,306,800	\$4,695,200
Non-Residential	5,124,300	5,617,900	8,391,700
Pub. Wks. & Util...	4,622,800	4,968,000	4,689,200
TOTAL.....	\$13,861,200	\$13,892,700	\$17,776,100

An interesting feature of the table is the improvement shown in residential contracts which ran close to the levels of a year ago, as compared with large declines shown in previous months. Should this improvement be sustained it will mark the beginning of a restoration of residential construction to its former position of primary importance. So far, however, as total building operations are concerned, the gain in the residential classification was offset by a decline in the "non-residential," so that the total average daily awards for the period were no better than in August and 22 per cent less than in September last year. Contracts for public works and utilities continue to hold up.

During the first six months of this year capital expenditures by the railroads amounted to \$468,305,000, an increase of \$118,000,000 over the like period of 1929, despite a marked decline in traffic and revenues. During this period net earnings showed a decrease of 33 per cent from a year ago, and were at the rate of 3.61 per cent on property investment, compared with 5.52 per cent last year. With these conditions continuing, the roads have been forced to look to the condition of their treasuries, and maintenance expenditures have been cut to the point where in June and July they were the lowest since 1918. Inasmuch as the railroads are large buyers of steel and other materials this enforced economy is a factor in the steel and general business situation.

The farm implement industry, another large consumer of steel and miscellaneous products, has been hit by the drought and fall in agricultural prices, and employment in these plants during August showed a reduction of 40 per cent from a year ago. Thus the receipt recently by several of the companies of large export orders from Russia comes at a most opportune time. Incidentally, the fact of these orders is worth taking note of in view of the agitation over Russian competition in world markets. It is a reminder that if Russia is to enter world trade she must buy as well as sell in these markets.

Money and Banking

During the past month money rates have remained at the unusually low level that has prevailed since the end of June. In the New York market commercial paper is being offered at 3 per cent and bankers' acceptances at 1½ per cent for prime names, and the active demand for these types of short term investments has raised the totals now outstanding to substantially above those of the corresponding period a year ago, despite the decreased volume of commercial borrowing generally. Call loan renewals have ruled practically unchanged at 2 per cent but sizeable amounts of funds are offered on the outside below the official stock exchange rate, in some cases as low as one per cent. Time loans against securities are quoted at 2¼ to 2½ for periods up to 90 days and at 2¾ to 3 per cent for maturities extending beyond the end of the year.

Loans and investments of the weekly reporting member banks have continued their upward trend and on September 17 established a new high point for the current year, totaling \$23,250,000,000 and representing an expansion of \$1,250,000,000 from the low point on February 26. Holdings of investment securities have had a steady increase amounting to \$794,000,000 during the period, and secured loans are \$763,000,000 higher, having made a marked increase in the Spring but remaining fairly constant since the mid-year. Unsecured loans, however, representative of commercial borrowing, decreased about \$300,000,000 in the Spring and have as yet shown little evidence of the seasonal recovery that normally occurs in the latter half of the year.

The volume of outstanding acceptances executed by American bankers decreased approximately \$10,000,000 during August, contrary to the usual seasonal tendency, but the total of \$1,339,000,000 was still \$139,000,000 above that of a year previous. There was a decline in acceptances drawn to finance exports amounting to \$28,000,000, for financing imports of \$5,000,000 and for domestic shipments \$3,000,000, while there were gains in acceptances arising from domestic warehouse credits of \$8,000,000, in dollar exchange credits of \$5,000,000 and for storage in or shipments between foreign countries of \$6,000,000. It is interesting to find that the latter classification has now passed the \$500,000,000 mark for the first time and reflects the successful development by American banks of this international and highly desirable type of business. When the figures covering September are available they may show some expansion in acceptances arising from both domestic and foreign trade, inasmuch as several large credits are reported to have been opened during the month.

The Bond Market

The impressive action of the bond market during September leaves little room for doubt that a genuine bull market in fixed investments is now well under way. High grade domestic issues have been the chief beneficiaries of a demand that has seemed insatiable. With a plethora of funds flooding the money market and forcing short term interest rates to the lowest figures of the year, dealers have found it extremely difficult in recent weeks to satisfy the requirements of their customers for high grade domestic investments. As a result, quotations for bonds of this type have been marked up rapidly, not only to new high levels for the year, but in many cases prices have pushed through the post war peaks established in 1928. The only noticeable weakness has appeared in the case of foreign dollar bonds. Because of political unsettlement in Latin America and Central Europe the issues of these countries have continued to show a sagging tendency.

Although relatively more sluggish than the highest grade issues, second grade domestic bonds have also been feeling the influence of the strong investment demand and many small gains have been scored. On the basis of past experience, further advances in second grade bonds would appear a reasonable expectation at the present time. So far this year, the bond market has followed very closely the normal sequence of events usually witnessed during periods of business depression and falling interest rates. The first step in this sequence is an advance in legals and other high grade issues as a result of the steady demand from institutional investors. This upward movement is likely to continue for some time without having any appreciable effect upon second grade bonds. Eventually, however, the supply of high grade issues becomes exhausted and the yields on this type of investment fall to a point where they are relatively unattractive as compared with less seasoned investments. At such a time institutional demand can be expected to spread to bonds of the latter type and individual investors usually begin to enter the market on a substantial scale.

Bonds in the highest grade have now been advancing almost continuously for more than ten months. At the present time dealers' shelves are practically bare of such investments and the yields obtainable are unusually low as compared with many issues of a slightly less seasoned character. It is, therefore, reasonable to expect that the latter class should feel more markedly from now on the influence of a steadily widening demand.

Sharply rising prices have brought forth a much larger volume of financing during the

month. New bond issues through September 27th have totalled \$415,000,000, against approximately \$150,000,000 for the entire month of August. As has been the case since the first of the year, public utilities, rails and municipals have accounted for most of the total. A \$50,000,000 issue by the Government of the Argentine Nation of One Year Five Per Cent Treasury Gold Notes was also announced, the first large foreign dollar issue to be floated in this market since early Summer. During the past two months the uncertainty existing over political conditions abroad has made it extremely difficult to float long term foreign bonds in this market on a reasonable basis.

World Banking Reserves

The Manchester (England) Chamber of Commerce within the last month has addressed to the British Government a memorandum upon the state of trade, in which it attributes the existing depression to the monetary situation. It says:

Whether this is due to the virtual sterilization of so much gold in certain countries or to a check on the annual increase in gold production is beside the point. The fact is that the monetary position at the present moment is one of the greatest barriers to the recovery of trade in general and the cotton trade in particular.

We gave some attention last month to this theory that the decline of prices has been caused by a scarcity of gold, and particularly to the complaint that gold was being virtually "sterilized" by certain countries, usually named as the United States and France. The term "sterilization" is used to imply that these countries have large amounts of gold locked up and not permitted to render service as the basis of credit.

The idea is concretely expressed in a letter recently made public by Mr. W. B. Ray, President of the Cotton Exchange of Corpus Christi, Texas, and received by him from a Liverpool broker. In giving it out Mr. Ray said that he had received other letters of the same tenor from parties connected with the British cotton trade. The body of the letter reads as follows:

We do not consider it likely that we will buy much American cotton this next season. It is relatively dearer than other growths. Also it is obviously to this country's advantage to trade with countries which are prepared to take our goods in exchange. In our opinion, by absorbing half the gold in the world and "freezing" it in the cellars of central banks—withdrawal from circulation—United States of America have upset the recognized means of exchange and have caused abnormal declines in the prices of raw materials, making it impossible for these to be normally exchanged for manufactured goods. We can not afford to see more gold so treated and therefore we feel we should do everything in our power to trade with countries which are content to trade with us in return.

This country is dependent for its existence on being able to export manufactured goods as payment for imported goods and raw materials. We cannot otherwise maintain more than half of our present population.

In our opinion the present troubles of the commerce and industry of the world are caused by interference in the natural flow of trade by governments.

In the article treating of this subject last month we showed by official figures that between June 30, 1914, and June 30, 1929, this country's stock of gold increased by \$2,433,000,000, while the loans, discounts and investments of our banks increased by \$37,685,000,000. This is \$15.49 of additional bank credit for every dollar of net addition to the country's gold stock. Opinions may differ as to how freely the banks should respond to requests for loans in a time of great speculative expansion, such as this country passed through from 1922 to 1929, but we submit that the use of gold at this ratio is not exactly "sterilization."

Gold Holdings of Principal Banks and Public Treasuries in 1912 and 1930

In the table given last month calculations were based on the monetary gold stock of this country as calculated monthly by the Treasury. The latter includes an estimate for gold coin in circulation or hoarded, which in fact must be regarded to a great extent as negligible for monetary service, although probably in existence. Whether included or not in such a calculation matters little, because the increase of this factor over the period was small. However, we now give a table showing the figures for gold stocks of all countries for which figures are available, as of December 31, 1912, and June 30, 1930, including only the officially reported holdings of banks and public treasuries, with the percentage of change in each case.

Gold Reserves of Principal Countries of the World
(Compiled from the Report of the Director of the Mint, 1913, and the Federal Reserve Board Bulletin)
(In millions of dollars)

	1912 (Dec. 31)	1930 (June 30)	Per cent of Change
Europe:			
Great Britain	395	768	+ 94.4
France	619	1,727	+179.0
Germany	213	624	+192.9
Italy	248	274	+ 10.5
Belgium	41	167	+307.3
Spain	124	477	+284.6
Netherlands	66	174	+163.6
Switzerland	33	112	+239.4
Sweden	27	65	+140.7
Denmark	21	46	+119.0
Norway	10	39	+290.0
	1,797	4,474	+149.0
Austria	246	24	- 99.0
Hungary	246	36	- 85.4
Czechoslovakia	—	39	—
Poland*	—	79	—
Roumania*	30	56	+ 86.6
Jugoslavia*	10	17	+ 70.0
Greece	3	8	+166.7
Finland	7	8	+ 14.3
Baltic States	—	10	—
Bulgaria	10	10	—
	306	287	- 6.2
Total Europe outside Russia	2,103	4,761	+126.4
Russia	646	203	- 68.6
Total Europe	2,749	4,963	+ 80.5

United States	1,495	4,178	+179.4
Canada	138	80	- 42.0
Argentina	281	440	+ 56.6
Brazil	126	89	- 29.4
Chile	1	8	—
Peru	5	16	+220.0
Colombia	—	20	—
Total Americas	2,046	4,831	+136.1
Japan	129	434	+236.4
India	124	128	+ 3.2
Australia	153	91	- 40.5
Egypt	9	19	+111.1
South Africa	43	34	- 20.9
Total	458	706	+ 54.1
36 Countries	5,253	10,500	+ 99.9

*The pre-war gold holdings of the monetary systems of the Austro-Hungarian and Russian empires were in part disposed of during the war and in part passed to the succession states.

Comments on Table

As a rule, these gold stocks were held by the central banks of each country, but in a few instances, notably the United States and Canada, where government currency is in circulation, government treasuries maintain gold reserves, and these are included.

The figures for Great Britain as of December 31, 1912, include gold in all banks, as reported in replies to interrogatories by the Director of the Mint of the United States. The gold reserve of the Bank of England alone at that date was approximately \$148,000,000.

The table has been arranged by divisions, first with the view of placing the countries of leading industrial and commercial importance in a group by themselves, and second of placing in a separate group the countries whose status was materially altered by the war, including Austria and the States derived from the Austro-Hungarian empire and from Russia, also Greece and Bulgaria. The figures for 1912 represent the gold in the Austro-Hungarian Bank, then the central bank of issue for the empire.

Russia is given separately, and a separate calculation made for Europe with and without Russia.

It will be seen that as a rule the principal countries of Europe, singly and as a group, have not fared badly in the distribution of gold since 1912. Italy has gained the least and Great Britain next, but none of the other countries in the first group has gained less than 100 per cent. The aggregate gain for the first group is 149 per cent.

If the reader compares these figures with price index tables his attention is called to the fact that the latter always represent percentages of the base averages, whereas these figures represent "percentage of change." Thus the price index number 150 would signify average prices 50 per cent above the base, while the percentage of change in the aggregate gold holdings of the first group signifies an increase of 149 per cent. Even the Bank of England shows an increase of 94.4 per cent, if the com-

bined holdings of itself and all other British banks are included. If the calculation is confined to the Bank of England, the gain from 1912 to 1930 would be 419 per cent.

There has been no such increase in the physical volume of trade of these leading countries or even in the value of their trade reckoned at the higher money valuations of the post-war years.

As heretofore stated, the gold holdings of the Bank of England at the end of 1912 were only about \$148,000,000. This constituted the working reserve of the country. The holdings of the joint stock banks were precautionary, prompted by the old idea that a bank might have to pay out large sums to alarmed depositors and that a bank as big or bigger than the Bank of England should make some provision on its own account. Much progress has been made since that time in the development of the responsibilities of a central bank. In fact the Bank of England was handling the foreign exchanges of Great Britain before the war on about 20 per cent of its present reserves.

The second division has not fared so well. These countries, however, were not using much gold before the war, although the Austro-Hungarian bank in the preceding 15 years had gained a strong reserve position. The figures given for 1930 are for actual gold holdings and do not represent the full financial strength of the central banks, inasmuch as most of these banks employ considerable funds or hold considerable credit balances in the larger financial centers of Europe, also in New York. These countries probably need capital for permanent or long term employment more than additional banking reserves.

The United States and France have gained largely, and almost at the same rate. In the case of France, as with Germany, Great Britain and other countries, much of the increase has been in the form of coin that before the war had been in circulation, tills and private banks. But during and following the war the French people accumulated important credits abroad, which since the stabilization of their currency they have been gradually bringing home. In the case of the United States, the country's trade position during the war and since has been one factor, but perhaps an even more important factor has been the voluntary action of foreign banks, corporations and individuals in choosing New York as a place for the employment of reserve funds. An annual inquiry, conducted for several years by the Department of Commerce, has shown that the total of foreign funds temporarily employed in the New York money market has been approximately equal to the sum of this country's net gold acquisitions since 1914.

The Federal Reserve authorities have not followed a policy of gold acquisition, but have

endeavored to avert gold imports so far as possible. They feared inflation, and fully realized that excessive supplies of gold would result in credit disorders.

Japan holds a high position among the countries that have gained gold in the period covered. India would show up in the front rank if her gold importations were devoted to monetary purposes. The fact that she does not have large banking reserves is due wholly to the customs of the country.

The figures for Australia, South American countries and Japan on June 30, 1930 have been affected by the loss of very considerable sums in the last year on account of the falling prices of their products, and resulting adverse international balances.

The Movements of Gold

On the whole, these comparative figures do not afford impressive evidence that the world is worse off than in 1912, so far as means of creating bank credit are concerned. Argument over the equity of the existing distribution may be maintained, but that is one of the oldest subjects of dispute in the world. What can be done to regulate the distribution of wealth, or of gold, the most liquid form of wealth? Gold goes where apparently it can be used to the best advantage. Englishmen will send it out of England for that purpose. Its movements are determined by the balance of payments, and a country's relative position in trade and industry is an important factor.

The Chamber of Commerce of Manchester must be aware that factors other than the supply of gold are affecting the trade of that great center of the cotton goods industry. Competition has developed in many countries that once looked to Manchester for goods. Japan has built up a highly efficient cotton goods industry which competes throughout Asia. China and India have made great progress in the manufacture of cotton goods, and despite the well known ability of British business men, the skill of British workmen and the high reputation of British goods, there is a question as to whether British industrialists — employers and employed — appreciate the necessity for a close study of their present position in world trade.

J. and P. Coats, Limited, thread manufacturers with headquarters at Glasgow, is one of the best known British houses in the world. Its fortieth "annual ordinary general meeting" of stockholders was held recently, and addressed by the Chairman, Mr. J. O. M. Clark. We make the following extract from his address, as perhaps affording some light on the question why the flow of gold on balance is unsatisfactory to Manchester:

Nothing is to be gained by refusing to face the facts, and it has to be admitted that so far as our own mills in this country are concerned we are not

In as good a position today to face foreign competition as we used to be, owing to high costs from one cause and another. On the other hand, our position abroad is stronger than it has ever been. As more than 80 per cent of our trade is a foreign trade, the position of the company as a whole is undoubtedly strong, and however depressed things may be at the moment we can look forward with confidence to being able when the tide turns, as undoubtedly it some day will, to take full advantage of the opportunities that will be offered.

I have had a comparison made of the costs, exclusive of raw material, at which we are able to produce at the mills of one of our associated companies on the Continent where the same or similar machinery to that used here is installed, running that machinery at approximately the same speeds, and producing a quality well up to our home standard, and it shows that what costs us 100 pence to manufacture in Paisley can be produced at 53 pence at the foreign mill in question.

It may be doubted that such an industrial problem as this extract describes can be solved by a mere change of banking policy.

Percentage of Gold Reserves

The Federal reserve system of twelve central banks was superimposed in 1914 upon a loose system of local banks, organized under national and state laws under which all chartered banks were required to keep certain cash reserves. Under the new system the unit banks, in lieu of cash in their own vaults, if they become members of the Reserve system are required to keep reserves in the Reserve banks, but on a reduced scale. The high percentage of gold shown by the Reserve banks is reckoned against their own demand obligations, but their gold holdings serve as the re-

serve for all the credit currency in circulation and all the bank deposits of the country. The somewhat complicated nature of the system has led to a very general misunderstanding abroad of the credit situation in this country.

We present below a table showing the aggregate gold holdings of the United States Treasury and twelve Federal reserve banks at five dates which give a fair idea of the average relation of the gold reserves to currency and banking liabilities over the last ten years. The statement for June 30, 1920, shows conditions at about the peak of the post-war inflation, the statement for June 30, 1922, shows the deflation that followed, while that of June 30, 1927, shows the expansion again under way. The rise of percentage from June 30, 1928, to June 30, 1929, was due to gold imports while the banking authorities were endeavoring to prevent further expansion of credit for stock market speculation.

In order to afford a basis for comparison we also give a table, as similar in detail to the above as we are able to make it, showing the percentage of Bank of England reserves to all currency and deposit liabilities. The figures for bank deposits are taken from the banking numbers of the London Economist.

It will be seen that the Bank of England percentages are lower than the Federal Reserve percentages, but all things considered the differences are not large. The consolidated reserves of the Federal reserve system are the

Currency and Banking Systems of United States

	June 30, 1920	June 30, 1922	June 30, 1927	June 30, 1928	June 30, 1929
Total gold coin and bullion in U. S. Treasury and Federal Reserve Banks	\$2,504,600,000	\$ 3,368,000,000	\$ 4,179,000,000	\$ 3,732,000,000	\$ 3,956,000,000
All kinds of credit currency in circulation (outside Treasury and Reserve Banks)	5,127,000,000	3,958,000,000	4,359,000,000	4,420,000,000	4,378,000,000
Individual deposits in all member and local banks (including U. S. Gov. deposits and certified checks)	38,005,000,000	37,874,000,000	52,446,000,000	54,275,000,000	54,261,000,000
Deduct Till Money	1,076,300,000	820,000,000	1,008,000,000	888,000,000	820,000,000
Net deposit liabilities	36,929,000,000	37,044,000,000	51,438,000,000	53,387,000,000	53,441,000,000
Total currency and deposit liabilities	42,056,000,000	41,002,000,000	55,797,000,000	57,807,000,000	57,819,000,000
Ratio of gold reserve to liabilities....	5.95	8.21	7.48	6.45	6.84

Currency and Banking Systems of Great Britain

	Dec. 31, 1927	Dec. 31, 1928	Dec. 31, 1929
Net Gold reserves in Bank of England and Currency Note Dept. of Treasury	£152,409,000	£159,306,000	£150,549,000
Joint stock banks, deposits and notes.....	1,893,000,000	1,951,478,000	1,911,007,000
Scottish banks, deposits and notes.....	263,000,000	269,853,000	272,215,000
Irish banks, deposits and notes.....	191,551,000	189,388,000	187,458,000
Private bank deposits	30,400,000	31,004,000	29,183,000
Trustee savings bank deposits.....	81,400,000	81,658,000	79,300,000
Total deposits	2,459,351,000	2,523,381,000	2,479,163,000
Deduct cash in hand and at Bank of England.....	388,190,000	371,147,000	389,899,000
Net liabilities of above banks.....	2,071,161,000	2,152,234,000	2,089,264,000
Bank of England deposits and notes outstanding.....	521,000,000	508,213,000	495,241,000
Total	2,592,161,000	2,660,447,000	2,584,505,000
Ratio of gold reserve to liabilities....	5.88	5.99	5.83

aggregate of the holdings of twelve institutions, located in different sections of the country, from Boston to San Francisco. Taking account of this division of reserves and of the fact that the United States has more than 25,000 independent banking institutions, most of which are not members of the Reserve system, the banking system of this country cannot be considered to be as cohesively and effectively organized as that of Great Britain. In the latter country 90 per cent or more of the banking business is done by less than twenty banks, grouped closely about the Bank of England and serving the entire country through their thousands of branches. Mere differences in organization clearly affect the efficiency of the reserves.

The State of Agriculture

The Government crop report on grains, based on conditions September 1, raised the estimate for all wheat from 808,000,000 to 837,000,000 bushels, for oats by 75,000,000 bushels and for barley by 17,000,000 bushels, but reduced the estimate for corn to 1,983,000,000 bushels. The average quality of the small grains is excellent. The drought affected pastures seriously for a time, causing a decline of milk production, but in the last month rains have been general and this situation has improved.

For some reason, not altogether clear, the price of corn has declined about 20 cents per bushel from the high point touched when the weather conditions were at the worst. Although the supply of old corn is low, feeders apparently are not alarmed over the supply situation, possibly because they are intending to curtail feeding operations. This is indicated by the reduced movement of feeder cattle from the markets to the country in July and August, which aggregated 197,005 head, against 341,081 in the corresponding months of 1929, a falling off of 42 per cent. If this curtailment continues beef will be high priced next year.

Farm products and food supplies generally declined during the last month, the Annalist index on September 10 being 117.3 for farm products, on the basis, 1913=100. Wheat and cotton made new low post-war records, the former on increased estimates of world production and growing visible supply, with Russian selling of especial importance, and the latter by the pressure of new crop offerings on a market in which there is almost no speculative interest. Speculative buying is required to carry the crop. At this writing prices in New York on the commodities named are as stated, in comparison with prices one year ago:

	Sept. 29, 1930	Sept. 30, 1929
Cotton, per lb.	\$ 0.1025	\$ 0.1885
Flour, Std., Spring, per bbl.	4.75	6.75
Sugar, raw, less duty, cwt.	1.10	2.30
Butter, Creamery, 92 score. ....	.40	.47
Eggs, fresh gath., 1 sts. ....	.245	.40
Lard, Mid. W., cwt.	11.25	11.50

In Chicago, the principal grain and live stock market of the country, quotations compare with those of a year ago as follows:

	Sept. 29, 1930	Sept. 30, 1929
Wheat	\$ 0.74½	\$ 1.28½
Corn .....	.82½	.99½
Oats .....	.35	.52½
Rye .....	.43½	1.02½
Hogs, bulk of Sales.	8.25-9.30	9.00-10.60
Bulk of beef cattle.	10.00-12.00	12.00-14.50
Lambs	7.25-7.50	12.00-12.50

Lambs went under \$8.00 for the first time since the war. Beef cattle, hogs and butter are bringing fair prices; the other quotations are unduly depressed, the cause being heavy offerings, lessened consumption, lack of speculative interest, or all these influences combined. The lamb crop this year was about 2,000,000 head, or 8 per cent larger than in preceding years, and not so many people are ordering lamb chops. A spirit of caution pervades the markets, as evidenced by the attitude of the farmers toward feeding operations. It is an old story that there is a vast difference in the consumptive power of the American people when they are buying freely and when they have decided to practice economy. The farmers are in the depression with everybody else, but most of them are safe with a roof over their heads and enough to eat in the garden, which would mean a lot to a city wage-worker out of a job and with a family to look after.

The wheat situation is dominated by the large visible stocks and the outlook for a world crop exceeding that of last year. The total visible supply in the United States, Canada and Great Britain on September 20, 1930, was 413,343,000 bushels, which compares with 393,493,000 bushels on September 21, 1929, and the present outlook is for larger crops in Argentina and Australia than last year.

Competition for American Cotton

It might be expected that the consumption of cotton goods would fall off in a year of depression. They are the clothing of the masses the world over and times are not good anywhere. In Asia, particularly, conditions are such as to affect the buying power of the millions, so when the figures appeared showing that the consumption of American cotton had declined 2,000,000 bales in the year ended July 31, 1930, the figures although large were not regarded as incredible.

However, we now have the annual computation of the consumption of all cotton,

made by the Master Cotton Spinners Federation of Lancashire, and although they also show a loss of 2,000,000 bales in consumption of American cotton, they show that the consumption of all cotton fell off only 673,000 bales. In other words, the decline of American cotton was due to gains made by other growths—presumably because they were obtainable at lower prices, more conveniently, or were preferred for some reason.

The following table shows world consumption of American cotton and competing growths over the last six crop years:

World Consumption of Cotton During the Six Years
1924-1930

Master Cotton Spinners Federation Figures						
Consumption of	1924-25	1925-26	1926-27	1927-28	1928-29	1929-30
American	13,229	13,731	15,777	15,538	15,076	13,023
Indian	5,435	5,572	5,197	4,598	5,178	6,087
Egyptian	975	921	1,007	973	989	937
Sundry						
growths	3,529	4,468	3,901	4,856	4,639	5,162
Total	23,167	24,009	25,882	25,965	25,882	25,209

Indian cotton is the principal single competitor, and always has sold at a lower price than American cotton because of shorter fibre. In the past year the price differential was increased, a result apparently of the Farm Board's support of American cotton. Moreover, of late years complaints have been increasing that a smaller percentage of American cotton is of superior quality, and this weakens our competitive position. It is significant of the stability of the world market for cotton goods that total consumption has been so well maintained. It is evident, however, that the quality of American cotton should be improved, and that our growers cannot rest in the belief that they have a monopoly. Nor can they be protected from their cheap foreign competitors by a tariff, for more than one-half of our cotton crop must be sold abroad.

Russian Competition

It has been known for several years that Russia probably would reappear as an exporter of wheat in considerable quantities. In the five years, 1909-13, the average exports of wheat from that country were 161,000,000 bushels. The war stopped supplies from that source and greatly stimulated the development of new wheat acreage in other countries outside of Europe. The Soviet government is carrying on an extensive campaign of industrial development which involves large purchases of foreign machinery and is very much in need of offsets against these purchases. It has been planning to increase the production of wheat, by organizing production on a large scale, employing tractors and the latest American machinery.

Not much has been known about prospective shipments from Russia, but these prepara-

tions undoubtedly have had an effect upon prices, because supplies are large even without any from that country. Reports say that shipments thus far this year have aggregated about 14,000,000 bushels and Broomhall, the Liverpool authority, has reported that for the season they might aggregate 48,000,000 bushels.

Hedging as a Business Practice

Recently excitement has been created by reports that the Russian authorities had been selling short on the Chicago market, and sales aggregating something over 7,000,000 bushels are said to have been traced.

Everybody seems to have forgotten that only a few weeks ago charges were made that the Canadians were selling short on the Chicago market. The truth about it all is that Chicago is the greatest hedging market for wheat in the world. Traders, dealers, millers of all countries use it to hedge their regular business transactions because it leads in volume of trading.

It has been said, as conclusive evidence of irregularity in the Russian transactions, that it would be wholly impracticable to deliver Russian wheat in Chicago. Hedging operations on the Chicago market seldom contemplate the shipment of wheat to Chicago, but are usually covered by local purchases. A miller who has bought wheat for conversion into flour may sell an equal amount of wheat for future delivery in Chicago, but without expecting to ship wheat to Chicago. He is protected in the manufacture of flour by the fact that if wheat declines in the meantime he probably will gain enough on the short sale to enable him to write down the cost of the flour and so meet the terms of a competitor who has bought wheat later than himself. In other words, he is on both sides of the wheat market, safe either way it moves, and figuring simply on a manufacturing profit. When the flour is sold he buys in his hedge contract, which in effect has been a species of insurance.

Elevator companies, buying grain at scores of railroad stations, hedge their purchases by corresponding sales on the Chicago market, but may not send any of their purchases to Chicago. They may sell the grain to mills in different parts of this country, or may send it direct to Gulf ports or by the lakes to Buffalo and the seaboard, distributing it as they are able to do advantageously, but cancelling their hedges as they do so. Cancellation is effected by buying offsetting contracts, sales and purchases washing each other out in the settlements.

A buyer of wheat in Canada or Argentina, who does not yet know whether he will sell in Liverpool, Amsterdam or Genoa, may make a hedge sale on the Chicago market for pro-

tection against fluctuations until he can negotiate for the disposition of his Argentine purchases. When he has done this he will close out the hedge operation in Chicago by buying against his previous sale. He aims to eliminate the risk of fluctuations, but save a dealer's profit.

This is the season of the year when the Russian government is acquiring grain from its State farms or the peasant growers. It may desire to hedge its holdings promptly, as protection against a decline. It might anticipate that reports of the movement of wheat out of Russia would affect the price. Whatever the reason may be, hedge sales on the Chicago market in anticipation of actual distribution would be following the usual practice in the grain trade and in all commodity-trading for which exchange facilities are available. In New York City such operations are carried on daily, not only in wheat and other grains, but in cotton, sugar, coffee, cocoa, silk, hides, rubber, cottonseed, burlap and non-ferrous metals. They reduce the hazards of regular dealings in these commodities and in their conversion into manufactured goods.

Effects of Short Selling

It should be understood that every contract is a bona fide and legal contract for delivery at a fixed date, and must be met at maturity, but obviously a contract to sell requires that unless the seller already is in position to make the delivery he will have to acquire the commodity by the date named. Hence every such sale as the Russian government is said to have made imposes the necessity of finally making a corresponding purchase in this country. Every short sale requires a purchase, and although a sale and purchase of equal quantities of a given commodity at different dates may not exert precisely the same influence upon the market, there is no way of knowing in advance whether the sale or the purchase will count most heavily. Short selling like any contract engagement is an act of business judgment. Since sales and purchases are being made by many persons and form a continuous stream of business there is no reason for doubting that on the whole they practically offset and cancel each other. On the whole they are beneficial to producers as broadening the market.

It cannot be doubted that the publicity given to the Russian short sales and importance attributed to them have exerted an unfavorable influence upon wheat prices.

It is interesting to note that among the advocates of extreme measures to prevent the "dumping" of foreign wheat in the United States are the leading advocates of the various proposals for "dumping" American prod-

ucts on foreign markets, as embodied in the McNary-Haugen Bill and the export debenture proposition.

Russian Policies

There are many strange things about the Russian situation. All accounts from within the country tell of a great scarcity of food supplies and other necessities and very high prices. It would seem that Russia really has no food to spare, but the Soviet government has marked out a construction program which involves the payment of large sums abroad, and these must be covered by exports. Mr. Ralph Budd, President of the Great Northern Railway, who went to Russia to give advice upon the reorganization of the railroads, says that there should be enormous purchases of railroad material and equipment, and this doubtless illustrates the needs of the country in many ways. We confess to skepticism toward representations that under these circumstances they deliberately and designedly sell their products for less than they might obtain. It does not seem that such a policy would best serve their purposes. All of this has nothing to do with the merits or demerits of bolshevism; it is only a question of what they are trying to do. While their general scheme of things seems hopelessly irrational, we doubt that they intend to enrich the capitalist countries by giving something for nothing or on any better terms than seem to be necessary. They are wanting goods which they cannot produce and are striving to get them by the only means available to them.

Nor are we very much alarmed about what they may do when they have developed their organization and become strong, efficient and well-equipped. They may not be very wise or considerate in their trade policies, but it may be assumed that they will always be more eager to trade on equal terms than to "dump." American engineers say it will be a long time before they are able to supply their own wants, and by that time their experience probably will have made them a very different people.

Control Over Business Depressions

One of the features of every period of business depression is a flood of vague comment to the general effect that there is no need, reason or excuse for the existing conditions, and that something ought to be done to prevent their recurrence. Often there is an implication that somebody—an influential group, the industrial system, monetary system, capitalist system, or other mysterious source of power—is responsible for the situation. Much of this comment comes from groups which advocate radical changes in the social order, but much of it is simply an aimless, uninformed expression of dissatisfaction.

It would clarify the thoughts of many people if they would simply grasp the idea that every class of regular business the world over is suffering great losses by the present situation. The mining, manufacturing, transportation, trading and banking interests include practically all of the big interests which are supposed to be powerful through the influence of money, and all of these are suffering heavy losses by the slackening of industry and trade. They are all interested in the maintenance of employment and trade at the highest possible volume; indeed, their interest in volume is greater now than in the past, because the part of capital in production is greater than ever before, and an idle industrial plant earns no return on its cost. Under the pressure of modern competition there is greater need than ever for operations close to capacity.

If the leaders of industry sometimes loosely referred to as "ruling" or "controlling" the country had the power to control the fluctuations in the volume of business, obviously they would keep it at a high level, but they have no such power. They are chiefly occupied with the problem of maintaining the activities of their own industries in the face of competition which intensifies as the general volume of business declines, and with keeping the results on the right side of the ledger. The vast capital represented as under their control is mainly invested in fixed properties, usually more or less encumbered by obligations upon which interest must be paid. They would soon involve their companies in bankruptcy if they disregarded the general trend.

They do not have the power to control wages, prices, or volume in their own industries, to say nothing of conditions in all the other industries, which of course react upon their own. They have less influence in making the laws of the country than either the farmers or organized labor, for the obvious reason that they have comparatively little power to deliver votes.

The Socialistic Argument

It is said that even though individual owners may desire to operate their properties to capacity there is a lack of order and control in the industrial system which results in the conditions complained of. This is the crux of the discussion. It is true that the industrial organization is not under any system of general control. It is a free system, because all persons are free to employ their varied capacities in whatever honest occupations they may choose. It is not the purpose of this article to enter into an argument over such specious pleas as that individual workers are not free, but compelled by the force of circumstances to take work as they can get it. Nobody is free from the compulsion of the circumstances

in which a person happens to be placed. Most people are obliged to earn a living and must find something to do where they live or by their own initiative. Society is not responsible for this condition, and it cannot be materially changed by any system of government. Nor is it the intention here to discuss Socialism or Communism, but simply to base what is said upon the fact that freedom of enterprise and the right of private property exist under the laws of this country. Under such a regime, with everybody free to do anything that any one else may do, rival and competitive efforts inevitably occur, with more or less confusion and disorder. These conditions are incidental to a state of individual freedom.

The Price of Liberty

All of the traits of human nature manifest themselves under a state of individual enterprise in the business world. The human kind is gregarious, imitative, excitable and inclined to move in mass, hence the well-known tendency to develop alternative periods of optimism and pessimism, which may be also described as debt-making and debt-paying periods. Within the last ten years we have seen this tendency strikingly manifested in the Florida town-lot boom, the Middle West farming land boom and the Wall Street stock market boom. These were all fundamentally alike and may be said to illustrate that certain undesirable results attend upon freedom for everybody to manage his own business affairs as he will; but, after all, the spirit of individual initiative and enterprise have settled and developed this country and made it what it is. Where shall authority for releasing and restraining individual initiative and enterprise be lodged?

Probably there are few persons unable to recall foolish investments of their own, but not many who plead guilty would want to have a conservator appointed for the management of their affairs, and it is quite certain that the American people as a whole have not reached that stage of desperation. What then is to be done about booms and the reactions that follow? Are they not, to a great extent, inevitable accompaniments not only of the physical development of a country like this, but of the development of the people themselves?

What would be the character of an individual who never had responded to the stimulus of opportunity or felt the discipline of a reverse? Just now the ideal course of affairs is thought to be one of placid regularity and stable prosperity. If everybody would consistently refrain from going into debt or taking chances in new and uncertain ventures, a very high degree of stability in the business world might be maintained, but it would be a slow world compared with that with which we are

acquainted. If mankind had adhered to the primitive custom of each person foraging for himself and supplying all his own wants, it never would have arrived at the present state of interdependence, or have experienced a financial panic or an industrial depression of the modern kind. On the other hand, sustenance, not to speak of more, never would have been found for 120,000,000 people within the boundaries of the United States.

Progress Through Change

Organized society has accomplished the progress it has made through freedom of individual initiative and the spirit of enterprise and innovation. It cannot afford to curb the reasonable exercise of that initiative, and who shall say where in the management of private business initiative ceases to be reasonable? It might have been thought unreasonable after the noted experience of Darius Green to try any further experiments with aviation, but flying now is a feat accomplished. Industry, trade and the professions are open and free for anybody to enter and perform in with such success as he may win, even though some disorder may result from having no overhead regulation. It is desirable that everything possible shall be done to inform and educate the citizenry to intelligent cooperation, but the individual must be free. It is fundamentally desirable to develop the initiative and capabilities of all the people, but how can they be developed without their free exercise? Organized society is a grand system of free cooperation, and cannot be reduced to perfect regularity, because its members are free, and because as a progressive system it is always changing. No adjustment of relationships is lasting. New industries are always interfering with old ones and disturbing the equilibrium previously established.

The Dangers of Prosperity

It is well known that a period of general prosperity tends to develop conditions which ultimately are its own undoing. It is natural in good times for the industries which are employing their full capacity to put their surplus earnings into extensions of capacity, often going into debt besides. It is natural also under the stimulus of prosperity to enlarge the organizations, plan more expensive sales campaigns, increase salaries and wages, and in general establish business upon a higher basis of expenditures, not always warranted. Personal expenditures expand in the same manner, and all this seems to enhance prosperity. The rising spirit of optimism often leads to discounting the future unduly, by incurring indebtedness and by establishing a scale of unproductive expenditures on the strength of anticipations which may not be realized. No-

body is wholly uninfluenced by the policies and beliefs of those about him, and a swelling tide of confidence becomes almost irresistible as it reaches the danger level, where sanguine anticipations are discounting the future too far ahead. That level cannot be sustained, and when this is realized, confidence fades out and a period of enforced liquidation and retrenchment begins, which must run its course until the errors of unwarranted anticipations have been corrected.

It is important to bear in mind that business slows down because the fine balance of relationships, which is the basis of ready trade and large general consumption, has been lost. The organization is out of order, and slows down automatically, like a machine designed to do so. The reaction is a corrective, tending to restore the right relationships. Therefore, it is a mistake to think that it can be started up just as it was running when the slow-down began. It will not run freely until whatever was wrong then has been corrected, and the balanced relationships have been restored. There are scores of cities in this country which have not yet occupied the farming lands about them that were laid out in town lots and made the basis of first and second mortgages fifty years ago.

The system of free enterprise and interdependent relationship is fundamental to civilization and progress, but its voluntary character—its very freedom and interdependence—tends to produce mass movements which from time to time disturb the equilibrium that is essential to prosperity. Ordinarily the swings are of moderate proportions, but the world has not yet found a basis of real stability since the vast upheaval caused by the war.

The time to apply remedies is in time of expansion, for it is then that the mischief is done; the reaction which follows is necessary to the restoration of normal conditions. It is doubtful that much ever can be done by the exercise of authority, but there is one means of protection within the command of every individual, which if generally resorted to will greatly lessen the violence and shorten the period of these reactions. If each individual will so manage his own affairs as to accumulate in the periods of prosperity a safety fund that will carry himself and those dependent upon him through the periods of reaction which may affect his earnings, he will not only protect himself and them, but do his part toward giving stability to the entire system. Nothing more is required than that each person shall use a portion of the increased earnings which the higher organization of society makes possible, to insure himself against the uncertainties which are incidental to the benefits.

It would not be consistent with the order of things which keeps the universe in balance to have everything our own way, or as the old saying goes, to "have it both ways." One should not expect to have the advantage of living in organized society and also the privilege of managing his own affairs in his own way, without being subject to the incidental disorders inherent in the system.

Perplexities of Australia

It is worthy of attention by those who think that greater stability in affairs might be assured by an increase of government activity in business, that a large part of the disorder now existing is traceable to mistaken governmental policies. Not to mention the War, which has been the chief factor in disorder in the last sixteen years, and which was an affair between governments, ill-advised legislation to stimulate production, and in support of ill-considered schemes for the supposed advancement of social interests, probably has had more than all else to do with bringing on the existing depression.

Australia is in as difficult a situation as any country at this time, as a result of over-free governmental expenditures for hastening the country's development and for various social purposes, some of which perhaps are quite worthy, but beyond present resources. The voters have had idealistic visions of improving living conditions by raising money wages and internal prices and through numerous experiments at the expense of the taxpayers. The Commonwealth and the States composing it, having good credit, borrowed large sums abroad, interest upon which, together with the amounts representing importations of foreign goods, must be regularly covered by Australian exports, mainly wool, meats, wheat and other agricultural products. The heavy fall in the prices of these products in the last year has resulted in a large adverse balance of payments and a serious deficit in governmental revenues, bringing the country face to face with the necessity for a drastic reduction of expenditures and revision of policies.

Upon the invitation of the Australian authorities the Bank of England (which was not involved on account of any claims of its own) sent one of its officials, Sir Otto Niemeyer, out to Australia to confer upon the situation. The outcome is an agreement upon the part of the Bank to undertake the flotation of temporary loans to meet the foreign maturities, with the understanding that current expenditures shall be cut to bring the budgets into balance. In the conference Sir Otto discussed the economic situation quite freely. He showed by comparison with conditions elsewhere that Australian costs had been lifted

until relatively too high to allow of competition on even terms, and that the country was not showing the increase in wealth and productivity which is the evidence of sound prosperity. He warned them that competition is very keen in the staple commodities which Australia exports and that in view of the increase in world production it was not safe to count upon a rise of prices for those commodities. We quote two paragraphs from his report to the Conference of Commonwealth and State Officials:

Australian productivity between 1911 and 1927-28 increased by something like 1 per cent per capita. It must be obvious that this is a rate very considerably below that of most other nations whose industrial products enter into competition with the output of the Australian secondary industries. Australia is lagging far behind the United States, and substantially behind Great Britain.

Australia's standard of living had reached a point economically beyond its capacity to bear without a considerable reduction of costs, resulting in increased per capita output. At present, while the money wage of those employed is almost double that of 1911, the number of those who attain that wage is steadily decreasing, unemployment having doubled since 1924. Australian workers, as a body, effectively receive little more than in 1911. The margin of those who have to be carried neutralizes in the total the advantages of those fully employed, and this process must increase unless an adjustment be made enabling a larger number to share in the total dividend.

According to the eminent speaker, Australia has been discounting the future too freely, endeavoring to make available for immediate use and enjoyment the wealth which the country, with a larger population and more advanced development, may have at its command a generation or two hence. It has been living upon a scale of expenditures made possible by an influx of capital borrowed abroad, instead of produced and saved at home.

This is a very common human weakness, in fact the secret of boom prosperity, but the attempt always comes to the same end. Now a radical change of policies is necessary. The most searching policy of economy must be adopted. Governmental salaries and wages must be reduced, superfluous employees eliminated, and unnecessary functions abandoned. At the moment, the remedy must intensify the depression, for it makes more unemployment and scales down expenditures which have the merit of putting money into circulation, if nothing more. But the country must get back to first principles. A Labor party government is in power there at the present time, which probably is fortunate, for it can hardly be accused of indifference to the general distress. Mr. Scullin, the Premier, faces the situation courageously, saying that the budget must be balanced and that Australia will meet her obligations to the last farthing. Unquestionably this declaration is supported by the sober judgment of the Australian people, but there is a left wing element in the Labor party which talks vaguely about scaling debts in-

stead of wages. Anything like a policy of repudiation of course would destroy the credit of the country at a most critical moment, but Australia surely will work out of her difficulties in time.

Just now the country must rigorously reduce its consumption of foreign goods. The greater part of its trade is with Great Britain and the London Times estimates that British exports to Australia in recent months have been 40 per cent below what they were one year ago. Exports from the United States to Australia from January 1 to August 1 aggregate \$53,582,176, against \$90,047,951 in the corresponding period of last year, which shows a decline of almost exactly 40 per cent.

World Economics and Politics

The state of economic disorder in which the world is involved has had an inevitable reaction in political conditions. Industrial depression, unemployment, the pinch of actual want arouse rebellious feelings everywhere. The mass of the people are not much interested in theories for radically transforming society, but they promptly take notice of conditions which lower the state of welfare in which they live. They become receptive to the theories of agitators who voice their discontent and seem to understand their hardships. They do not know much about the science of economics or government, but they have the idea that governments should look after the welfare of the people, and that if things are going badly the parties in control are not doing a good job. Bad times afford opportunities for would-be leaders to get a hearing and perhaps oust the old authorities from their positions of leadership.

The same feeling of restlessness is manifested in international relationships wherever any unsettled questions exist or past settlements have left irksome burdens to be borne. All of Europe is suffering economically, and the people have a state of nerves which is not conducive to good relations. The disarmament conference in London apparently accomplished something of value, but it was quite obscured by the vast amount of antagonistic comment upon the findings. There is some reason for thinking that the more the nations discuss their differences the more serious the differences become. Certainly that has been true of the negotiations between France and Italy over naval strength. We do not believe that either country has any idea of having war with the other, there is so little for either to gain and so much for both to lose, but their conferences are of serious import. The withdrawal of allied troops from the Rhineland might have been an event to build hopes on, if it had not been followed almost immediately

by an indiscreet official discussion of the Polish frontier. Thus something continually happens, to give the irreconcilables of another country occasion for starting an alarm.

The German Election

It was unfortunate that Germany had to have an election at this time. Unquestionably the Young Plan was a disappointment to Germany. The people hoped for a larger reduction in the sum of reparations, believing the sum named to be too large for the country to pay abroad and maintain normal social and industrial progress. Unfortunately the industrial depression which followed upon the ratification of the plan has seemed in the minds of many to justify the protest. With increasing unemployment the people have been depressed in spirits, and the reparations obligations have seemed more formidable than ever. The growing expenditures for unemployment doles have created a budget deficit, rendering new taxation necessary. The German Parliament is split up into so many groups that it seemed to be impossible to obtain a majority upon any proposal for new taxes, and finally President Hindenburg, acting under a provision of the constitution, dissolved the Parliament and called for the election of a new one, the Chancellor of the Exchequer meanwhile proceeding with his own proposals, subject to approval by the new Parliament.

Politics are much the same in all countries, except that in the United States the confusion of a campaign is lessened by having comparatively few political parties. In Germany this time 24 parties qualified to be represented on the ballot. The sensation of the campaign and election was the large figure cut by a party which seems to embody a strange complex of patriotic and socialistic ideas, led by an alien, a citizen of Austria, although of German ancestry, but an orator of considerable power. His so-called Fascist party gained 107 seats of the more than 500 in the legislative body, but there are other radical groups, and this movement was based upon such wild and irrational proposals that Germany herself was startled by its sudden development. At first the election seemed to be such a pronounced defeat for the existing ministry, which stood for the faithful fulfillment of every international obligation, that the mercurial traders of the international exchanges jumped at the conclusion that it foreshadowed a revolution in Germany, or at least a repudiation of the Young agreement. The German Government 5½ per cent bonds which were distributed in New York in June at 90 sold down to 80, but have since recovered several points. Of course, this was heedless action, for there is not the slightest danger of Germany going bolshevik, and even if the

reparations plan should be superseded by a new one, there is no chance that the outstanding bonds would be disturbed as they represent only a small part of the aggregate. The foreign loans negotiated by the German public authorities and German corporations are not involved in the controversy at all. The so-called Fascist party is not advocating their repudiation.

Since the first flurry over the election, informed opinion in Germany has been convinced that no radical change of governmental policies will result. The great mass of the German people are sober-minded, conservative in their views, faithful to their obligations and disposed to do their part for the maintenance of peace. The responsible leaders of the principal parties have no intention either of repudiating the Young agreement (which provides in itself the manner by which it may be modified if found impractical) or of involving Germany in another war. There are in Germany types of people known in all countries—hot-headed youths and unbalanced elders—who imagine that they are called upon to rouse the nation to again demonstrate its power. Conditions this year have afforded an opportunity for such to exert themselves and to gain support from all the discontented elements who felt like registering disapproval of the government. Somebody said of an election in this country a number of years ago, that the West had merely thrown a brick through the window to express its feelings and attract attention to its grievances. The German election had some such significance.

The responsible leaders of public opinion, including those who opposed the Young plan as making insufficient reduction, recognize that it is too soon to make out a case against the plan. Contentions one way or the other are as yet inconclusive. Time alone can show the results of the plan. In Dr. Curtius as Minister of Foreign Affairs, Germany has a worthy successor of Dr. Stresemann, of lamented memory, a devoted supporter of the League of Nations and friend of peace. So long as such men constitute the government of Germany the world will have confidence in the intentions and promises of the German people, and will desire that justice be done to the German nation.

The British Imperial Conference

The people of Great Britain are looking forward with much concern and hope to the Imperial Conference which has just begun in London, participated in by the premiers of all the Dominions. The purpose is to consider all

matters of common interest, and all entertain in some degree the hope that it may find a way for closer trade relations, mutually advantageous to all parts of the Empire. There is general appreciation of the fact that serious difficulties are to be met. The premier of Canada is fresh from an election in which he sounded the keynote, "Canada First," to signify that under his administration no opportunity to advance the interests of Canada would be neglected. In other words, the policy of Canada will be practically that of any wholly independent nation. He outdid his rival, Mr. Mackenzie King, in emphasizing this policy, and won on it. Moreover, in less than a month from the date of the election he had put into effect a new provisional tariff which has been pronounced in Great Britain much more adverse to British manufactures than the preceding one. Mr. Bennett is a thorough-going protectionist, and not many goods are made in Great Britain which cannot be made in Canada, if that is the chief consideration.

Australia holds as uncompromising an attitude as Canada, and at the moment is under the necessity of restricting imports to the last degree in order to reduce the adverse trade balance.

India also is all worked up on the subject of economic independence, to accompany a larger degree of political independence, and the premier of South Africa holds such pronounced views on the subject of independence that he wants at the beginning of the conference a definite declaration of the right of any Dominion to sever all political relations with the Empire whenever it may choose to do so.

Great Britain has many valued trade relations outside of the Empire, as for example with the neighboring countries of Europe and the countries of South America. The Dominions have similar relationships, and an attempt to form an exclusive or preferential bund, which will put these other countries at a disadvantage may cost more than it gains. Great Britain cannot take all of the products of the Dominions or the Dominions all of the products of Great Britain.

Following the Imperial Conference will be another very important conference, also in London, with representatives of public opinion in India, in which an effort will be made to quiet the unrest and disorder which has been causing so much trouble in that country. Apparently the Gandhi element has decided not to participate, but there is hope that some plan may be devised which will satisfy the aspirations of the Indian leaders.

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